

Memorandum

To : Honorable Judy Chu, Ph.D., Chair
Honorable Betty T. Yee, Vice Chairwoman
Honorable Bill Leonard
Honorable Michelle Steel
Honorable John Chiang

Date: March 27, 2008

From : Randie L. Henry, Deputy Director
Sales and Use Tax Department

David J. Gau, Deputy Director
Property and Special Taxes Department

Subject : Security Deposits Update
April 8, 2008 – Customer Service and Administrative Efficiency Committee

The Sales and Use Tax Department (SUTD) and the Property and Special Taxes Department (PSTD) have been working on releasing the backlog of security deposits eligible for release. The backlog included eligible accounts with security deposits three years and older or the accounts with security deposits under \$2,000. As of this date, the SUTD and the PSTD have released a total of 5,266 accounts worth \$42,563,971 (please see below).

Security Deposits Released to Date

Security Deposits	Number of Released Accounts	Total Amount	Release Completed
Security over three years eligible for release (as of January 3, 2008)	2,028	\$39,601,184	February 29, 2008
Security under \$2,000 eligible for release (as of February 1, 2008)	3,088	\$2,962,787	March 14, 2008

Since the release of the backlogged security deposits has been completed, we are now focusing on improving the current policies and procedures from the time the security is requested through the time it is released. Our goal is to streamline the security application and release process and to create a process that is more uniform, timely, and efficient.

Security Deposit Release Criteria

The Security Deposits Work Group has identified changes to the release criteria that will allow for a timelier release of security deposits held by the Board for three years. The Cigarette and Tobacco Products Tax program will be excluded as there are no provisions for release of the security deposit until the account is closed out.

We are currently working with the Technology Services Division (TSD) to implement the changes. Below is a chart comparing the current criteria to the new criteria.

Current Criteria	New Criteria
1. Security must be held for three years	1. Security must be held for three years
2. Account must have good history for three years	2. No current accounts receivable
3. No more than two fully-paid late returns over the last three years and none within the last twelve months	3. No current delinquent returns
4. No dishonored checks and no EFT payments not resolved by a Section 6592, 6593, or equivalent PSTD statute request	4. Account must have no more than two instances within the last twelve months of non-compliance with items two and three
5. No partial or non-remittance returns	
6. No revocations	
7. No fraud assessments	
8. No pending criminal proceedings or convictions involving sales and use tax evasion	
9. The account has not been selected for audit	

Once the new criteria is agreed upon, the district offices and Headquarters divisions will be given instructions to use the new criteria when manually reviewing the accounts.

Beginning April 1, 2008, all district offices and Headquarters units will review and release security deposits on a monthly basis.

Also, attached for your review is the interim security deposits denial letter. The letter informs the taxpayer the security deposit is not eligible for release. It also advises the taxpayer to call if they have any questions regarding their account. Approximately 7,000 letters will be sent out in the initial mailing.

Security Deposits Milestones

Below is a revised plan with key milestones and targeted completion dates.

Milestone	Estimated Completion Date
1. Release backlog of security deposits over 3 years	February 29, 2008
2. Release security deposits under \$2,000	March 14, 2008
3. Monthly distribution of security deposits release reports	April 1, 2008
4. Mail interim security deposits denial letters with current criteria	April 30, 2008
5. Revise action plan for modification of the entire security deposits program	May 28, 2008
6. Implement new security deposits release criteria in IRIS	August 31, 2008
7. Mail security deposits denial letters using new criteria	August 31, 2008
8. Propose legislative changes for PSTD security deposits	September 30, 2008
9. Implement security deposits denial letter in IRIS stating specific reason(s)	October 31, 2008
10. Mail security deposits denial letters stating specific reason(s)	October 31, 2008

If you have any questions, please feel free to contact us.

RLH:DJG:jt

Attachment: Security Deposits Denial Letter

cc: Mr. Steve Shea
Mr. Mark Ibele
Mr. Alan LoFaso
Ms. Barbara Alby
Mr. Erik Caldwell
Ms. Marcy Jo Mandel
Mr. Ramon J. Hirsig

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[date]

[Owner Name]
[Mailing Address]
[City] [State] [Zip]

Account No: [account]

Board of Equalization records show you have had a security deposit posted in accordance with section [XXXX] of the Revenue and Taxation Code for over three years with our agency. Generally, security is released after a three-year period in which the person has established a good history. A good history means:

1. no more than two fully paid late returns and none within the last twelve-month period,
2. no unresolved dishonored checks and no EFT non-payments,
3. no partial or non-remittance returns,
4. no revocations,
5. no fraud assessments,
6. no pending criminal proceedings or convictions,
7. no pending audit.

Based on the above referenced criteria, it was determined that your security is not eligible for release at this time. Your account will be reviewed again in six months to determine if your security deposit is eligible for release.

If you believe this information is incorrect or if you have questions regarding the release of your security deposit, please contact [staff name] at [staff phone number] or by e-mail at [e-mail address].

State Board of Equalization

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